International Business News

Nokia profit drops 69pc in fourth quarter

AP, *Helsinki, Finland*

The world's top mobile phone maker, Nokia Corp., on Thursday said its profits fell 69 percent in the fourth quarter as the economic downturn slowed handset sales.

Net profit was euro576 million (US$743.62 million), down from euro1.84 billion in the same period in 2007.

Sales fell 19.5 percent to euro12.7 billion, from euro15.8 billion.

The results came in below expectations, sending Nokia shares down more than 5 percent in Helsinki to euro9.66 ($12.47).

The Finnish company gave a bleak outlook for the industry, saying it expects global mobile device volumes to drop 10 percent in 2009 compared to last year.

Chief Executive Olli-Pekka Kallasvuo said the industry has been hit by "weaker consumer confidence, unprecedented currency volatility and credit tightness."

"We are taking action to reduce overall costs and to preserve our strong capital structure. This is clearly our top priority in the current economic environment," Kallasvuo said.

Nokia said its share of the handset market fell to 37 percent, down from 38 percent in the previous quarter and 40 percent in the fourth quarter of 2007.

Sony expects $2.9b operating loss

AFP, *Tokyo*

Sony on Thursday forecast a much bigger than expected operating loss of 2.9 billion dollars, the first in 14 years, as the global economic crisis saps demand for cameras, televisions and other goods.

The grim forecast underscored the depth of the problems facing the electronics industry as consumers cut spending amid a wave of global job cuts.

The iconic Japanese company said it expects an operating loss of 260 billion yen for the current financial year to March, a dramatic reversal from an earlier goal of a 200-billion-yen profit.

The electronics giant, which is slashing thousands of jobs and axing plants, now sees a net loss of 150 billion yen for the current year, compared with an earlier projection for a 150-billion-yen profit.

Sony blamed the worsening business environment, the stronger yen, weak financial markets and restructuring costs for the bleak outlook.

Under its first foreign boss, Howard Stringer, a Welsh-born US citizen, Sony has shed non-core assets and slashed thousands of jobs in recent years. Last month it announced 16,000 more job cuts along with factory closures.

AFP

Job seekers apply at an employment agency during a local and international job fair in Manila yesterday while semiconductor firms are laying off employees due to the impact of global financial crisis. Up to 60,000 jobs could be lost in the Philippines' key electronics sector after Intel Corp shut a facility and Texas Instruments announced a number of lay-offs, an official said.

Crisis-struck KBC secures fresh state capital

AFP, *Brussels*

Belgian regional authorities moved on Thursday to bail out embattled bank KBC, providing up to 3.5 billion euros (4.6 billion dollars) after its shares collapsed in a crisis of investor confidence.

The bank, which had already received an infusion of state cash in October, said that authorities in the northern Flanders region had agreed to inject 2.0 billion euros in fresh capital.

They also extended a facility for a further 1.5 billion euros if deemed necessary.

"The financial position of the group remains solid after we obtained the commitment ... to an additional non-dilutive capital-strengthening transaction," said chief executive Andre Bergen in a statement.

KBC had to resort to taking state cash after writing down the value of its portfolio of toxic collateralised debt obligations, which have ravaged the balance sheets of many a bank in the recent financial crisis.

The bank said it booked writedowns on the portfolio for the whole of 2008 of 4.0 billion euros, leading to an estimated full year loss of 2.5 billion euros,.

Deutsche Post ex-head on trial over tax scandal

AFP, *Bochum, Germany*

The ex-head of Germany's Deutsche Post faced court on Thursday over an international tax evasion scandal that fuelled public anger about "fat-cat" excesses in Europe's biggest economy.

Klaus Zumwinkel was the highest profile head to roll last February when his name appeared on a list bought by the German secret services from a whistleblower at a bank in the tiny Alpine principality of Liechtenstein.

The DVD for which Germany reportedly paid 4.5 million euros (5.9 million dollars) also included the names of hundreds of German business executives, sports stars and entertainers who had allegedly been dodging the taxman.

Together, they were suspected of stashing some four billion euros away from the authorities.

This prompted countries around the world to launch their own investigations as well as heavy international criticism of Liechtenstein and other tax havens for their traditions of banking secrecy.

INTERVIEW

Measures of competitors may hit Bangladesh

STAR ONLINE REPORT

The global economic meltdown is shaking the world. Though the crisis originated in developed countries, its adverse impacts started to be felt in economies of many low-income countries. There has been a lot of debate among businessmen, economists about the impact of the meltdown on Bangladesh. In an exclusive interview, economist Professor Mustafizur Rahman shared his thoughts with The Daily Star on the matter.

Mustafizur Rahman

Q: What are the distinctive features of the ongoing global crisis?

One of the major distinguishing features of the ongoing financial crisis is the speed with which the financial sector debacle has impacted the real economy. Another key feature is the pace of the contagion. However, these developments are not unexpected. In view of the increasing momentum of globalisation of national economies and their vertical and horizontal integration with the economies of other countries through freer movements of goods, services, and capital and labour, the implications of the current crisis have resonated throughout the world with unprecedented depth and breadth. Thus, although the crisis originated in developed countries and in particular sectors of their economies, its adverse affects started to be felt immediately not only in other sectors of their own economy, but also in economies of other countries which were exposed to the crisis through various channels of connectivity involving trade, commerce and investment.

What also distinguishes this crisis is that economies of many low-income countries, whose degree of openness of the economy has risen sharply over the past years, have become vulnerable to the emerging developments in a way that has not been seen during earlier recessions. These apart, yet another distinctive feature of the present crisis is the use of the learning curve by the affected countries in addressing the adverse impacts of the crisis. Policymakers appear to have taken good lessons from the experience of the Great Depression and latter recessions, and have come to recognise that speedy recovery will hinge critically on proactive interventions by the government. The size and outreach of bailout measures that have been, and are being, adopted across the globe from USA to China and from Germany and UK to India, testify to this.

Q: How do you see the prospect of stabilisation?

It needs to be recognised that by any measure, for most developed economies, recession has already set in by the second half of 2008 (recession, in the technical sense of the word, being defined as negative GDP growth over two consecutive quarters). All projections relating to the emerging situation indicate worsening of the economic fall out in 2009, before the recovery becomes visible, perhaps in early 2010. It is difficult to predict at this point how things will span out in near future. The signals are mixed. In some countries, such as the UK, a second round of (bank) bailouts have been set in motion very recently inspite of implementation of the first round of rescue packages some time earlier.

Whilst others feel that once the Obama administration settles in and the US bail-out measures and the stimulus package (already activated) receive further jolts, recovery would be faster than what is being anticipated now. The free-fall in major share markets, which have lost significant amount of value over the last one-year, has been on hold for some time now.

However, some volatility persists in these markets and they still are a long way from getting back to where they started. It is to be noted that Christmas sales in December 2008, inspite of large and multiple discounts by major retailers, have seen some decline. Low consumer confidence, shattered by recent events, coupled with over cautious behaviour of banks in creating credit money, would indicate that demand continues to remain sluggish. It will take some time for the stimulus packages to translate into more jobs, greater consumer confidence and more market demand, which in turn would stir the production response. It appears that a bumpy year lies ahead before things start to improve.

Q: How do you place Bangladesh in this crisis?

The degree of openness of Bangladesh's economy has been on the increase over the past years, thanks to the higher role of export and import of goods and services in the economy. At present, more than 50 percent equivalent of Bangladesh GDP is connected with the global economy through exports and import of goods and services (including remittance). About 85 percent of Bangladesh's exports are destined to developed economies; about 60 percent of imports are from those countries. If India, China and other emerging economies are also taken into consideration, the extent of exposure of Bangladesh economy with crisis-driven developed and developing economies will be quite significant.

All of Bangladesh's partner countries have seen their growth projections revised downward several times in recent months, to various degrees. Whilst the projections for US and EU economies indicate negative to zero growth for 2009, India and China are also expected to experience much lower than the trend GDP growth rates, perhaps about 6-7 percent. This would indicate sluggish demand for imports by these countries in 2009. However, being suppliers of lower-end products, mainly of apparels, the demand for our exports has been relatively less affected by the recent slowdown.

The Middle-East economies, with fall in oil prices, are likely to experience lower growth rates in 2009; however, they have some cushioning, thanks to the earlier fuel price-hike; growth projections for 2009 is relatively high at about 5 percent. Demand for low-end workers (unskilled and semi-skilled) is likely to be relatively affected although a slowdown of construction work could adversely impact outflow of migrant workers from Bangladesh. It is, however, to be noted in this connection that exports from Bangladesh have experienced a growth of 27 percent in the July-November 2008 period, whilst remittance has increased by 31 percent over the first six months of FY2008-09. Our share markets have also remained more or less unscathed thanks in part to their low exposure to foreign portfolio investment. Bangladesh has also benefited from the fall in global commodity prices such as food, fuel and fertiliser which has somewhat eased the import burden. However, if recession deepens further, some slowdown in export growth should not be excluded. Besides, the commodity prices are likely to bounce back once the global economy starts to experience an upturn. Accordingly, Bangladesh's fiscal, monetary and macroeconomic management policies should be pursued with due caution in anticipation of possible adverse implications as well as changes in market environment. As was pointed out earlier, thus far, Bangladesh's external sector has been able to weather the current crisis. However, Bangladesh will need to monitor possible developments very carefully.

It is to be recognised that, Bangladesh economy will be impacted by various policy measures and stimulus packages offered by Bangladesh's competing countries. For example, currency devaluation by neighbouring regional countries (ranging from 20 to 30 percent over the past year in India and Sri Lanka) will impact Bangladesh's competitiveness in the global market. Policies geared to supporting domestic producers and export sector of competing countries could undermine price competitiveness of producers and exporters in Bangladesh.

For example, support provided to the yarn sector by India is already having an adverse impact on Bangladesh's yarn producers, particularly in the backward linkage textile sector. Besides, Bangladesh's export earnings from leather, jute and frozen food have gone down because of a deceleration in demand in developed countries as a consequence of the financial crisis. Because of its possible implications for domestic resource mobilisation, the recent deceleration of collection of import duties in view of the falling global commodity prices will also need to be closely monitored.

Q: Should we also go for a stimulus package?

We must monitor the developments at our end and closely examine the developments in partner countries, on a continuing basis. We do not yet have the December export figures for Bangladesh; however, some early information as regards orders placed in December and January, albeit anecdotal, should send cautionary signals. If recession deepens, both export and remittance could suffer in the coming months of FY2008-09.

The situation with regard to domestic resourced mobilisation, in view of the deceleration in the growth of import duties over the first half of FY2008-09, was mentioned earlier. As was noted, predicaments of backward linkage spinning sector is also emerging as a cause for concern; export of jute and leather sector, and also ship-building has seen some deceleration in recent times. Devaluation in India and stimulus packages in India and China have put Bangladesh's exports under considerable competitive pressure in the global market. In view of all these, targeted support, by way of trade facilitation, technological upgradation, credit at reduced cost and other measures, may need to be designed for the affected sectors. We should be able to see beyond the average growth figures. The devil is in the details, and vigilance and quick action is the name of the game.

Q: Should we be cautious about foreign investment?

In times such as this, it is smart to be cautious. But having said that, we also should appreciate that Bangladesh needs foreign investment, both direct and portfolio.

Total investment flow to Bangladesh in FY2007-08 was only $698 million (of which about $650 million was FDI); in the first three months of FY2008-09, this was about $400 million (of which $395 million was FDI). This was equivalent to only a small percentage of gross domestic investment in Bangladesh (about 3 percent). Foreign portfolio investment was only about 2.5 percent of total market capitalisation of Bangladesh. In times like this, when foreign investors generally tend to be averse to taking risk, they also look for good and safe investment opportunities. I reckon that this will happen in this recession as well.

By ensuring good governance, improving business environment and infrastructure, supporting trade facilitation and by promoting 'brand Bangladesh', Bangladesh could project itself to global investors, mutual funds and venture capitalists as a good investment destination. Early signs of such interest are there. At the same time, monitoring and overseeing function, particularly by the Securities and Exchange Commission (SEC) and other relevant organisations will need to be further strengthened in view of the volatility of the emerging situation.

Q: Can Bangladesh reap any benefit from the crisis?

The deceleration in global commodity prices provides Bangladesh an opportunity to take advantage of the crisis-driven market dynamics. The challenge here will be to translate, in a speedy manner, the falling global prices into reduced domestic retail prices by removing the attendant bottlenecks and making markets more competitive. Import contracts and stock strategies will need to take these opportunities into cognizance. As was mentioned earlier, foreign investors, though cautious, will be looking for good and safe investment opportunities. Bangladesh ought to be on their radar screen and, for this, we will need to do our own homework.

The demand for our low-end products is likely to sustain in the face of falling purchasing power in our partner countries. Hence, this also gives us an opportunity for increasing our market share in our major trade partner countries. Our policies will need to be geared to such market openings, and our exporters of goods and services will need the support of policymakers to realise the potential benefits.

Professor Mustafizur Rahman is the executive director of the Centre for Policy Dialogue (CPD).

FINANCIAL CRISIS

Pay freezes spread during brutal recession

AP, *Washington*

What do Tropicana Casino and Resort, Avis and the White House now have in common? They're all freezing the pay of some of their workers. It's part of a growing trend by employers facing the fallout - economic and political - from a brutal recession.

For companies, pay freezes are a key cost-cutting tool for surviving hard times.

For President Barack Obama, who ordered a pay freeze for White House employees earning over $100,000 a year, the move on his first full day in office sent a message to a nervous country: We're in this together.

"During this period of economic emergency," Obama said, "families are tightening their belts, and so should Washington."

The unemployment rate has bolted to a 16-year high of 7.2 percent. Last year, 2.6 million jobs vanished, the most since World War II. The jobless rate is expected to march upward and layoffs to pile up even with a multibillion-dollar stimulus package being crafted by Obama and Congress.

More squeezed employers, though, are seeking an alternative to layoffs. They're turning to pay freezes, pay reductions and other cost-cutting options, such as ending their contributions to 401(k) accounts.

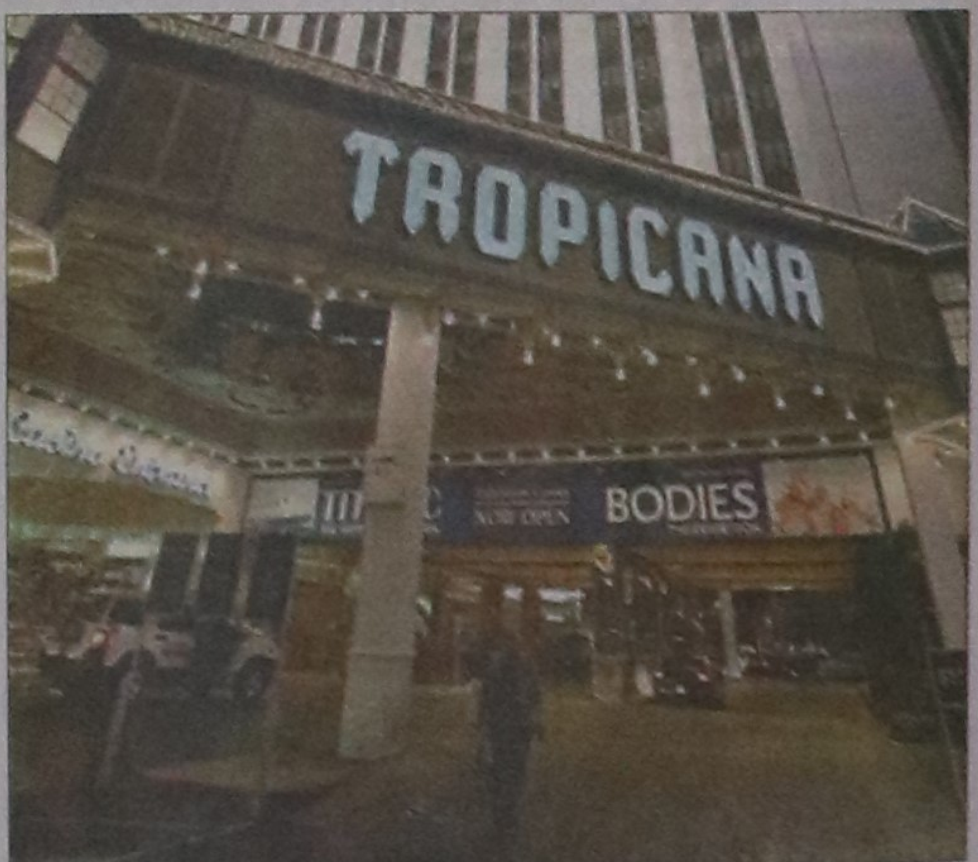
"All of that hurts, but nothing hurts more than losing a job," said Allen Sinai, chief global economist at Decision Economics Inc. "It is a growing trend as companies try to cut costs. Going forward, we will see more of this, absolutely."

The Federal Reserve has taken notice. In a recent survey of economic conditions, it observed that in some parts of the country, companies were resorting to "pay freezes or reductions in compensation."

A wide range of employers have followed suit. In some cases, they're imposing pay freezes or cuts to avoid immediate layoffs, though economists say such steps tend to lead to layoffs anyway. In other cases, employers are cutting or freezing pay and laying off workers.

"It's a real tectonic shift," Terry Connelly, dean of Golden Gate University's Ageno School of Business, said of pay freezes and cuts. Such steps, which once affected mainly union workers, are spreading to white-collar industries, he said.

"The extraordinary pace of layoffs has shifted people's internal calculations to the point where they are not only willing to take a pay cut to save their own job but also take a freeze to save their co-worker's," Connelly said.



AP

The Tropicana Resort & Casino in Las Vegas.